

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>		Printed Name		License Number

ST. CLAIR AREA FIRE AUTHORITY

St. Clair, Michigan

FINANCIAL STATEMENTS

September 30, 2006

ST. CLAIR AREA FIRE AUTHORITY
St. Clair, Michigan

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**BERTHIAUME
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INDEPENDENT AUDITORS' REPORT

To the St. Clair Area Fire Authority Board
St. Clair, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the St. Clair Area Fire Authority, as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the St. Clair Area Fire Authority management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the St. Clair Area Fire Authority, as of September 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the St. Clair Area Fire Authority's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthiaume & Co.

February 13, 2007

Our discussion and analysis of the St. Clair Area Fire Authority's financial statements provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basic understanding of the St. Clair Area Fire Authority's statements. These statements comprise three components: (1) government-wide financial statements, (2) fund (modified accrual) financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional information purposes.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the St. Clair Area Fire Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the St. Clair Area Fire Authority's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund (Modified Accrual) Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds (modified accrual) statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near term financing decisions.

The St. Clair Area Fire Authority adopts an annual budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund (modified accrual) financial statements.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Authority's assets exceeded liabilities by \$316,498 at the end of the fiscal year.

The net assets is separated into two major components, investment in capital assets net of related debt, which amounted to \$248,967 or 79% of net assets, and unrestricted net assets of \$67,531 or 21%.

When comparing this fiscal year to the previous year, net assets have decreased by \$5,483.

The following table shows the net assets as of September 30, 2006 and 2005:

Statement of Net Assets

	<u>2006</u>	<u>2005</u>
Current assets	\$ 440,471	\$ 630,242
Capital assets	<u>1,117,845</u>	<u>1,136,599</u>
Total Assets	<u>1,558,316</u>	<u>1,766,841</u>
Long-term liabilities outstanding	849,981	827,690
Other liabilities	<u>391,837</u>	<u>617,170</u>
Total Liabilities	<u>1,241,818</u>	<u>1,444,860</u>
Net Assets:		
Invested in capital assets, net of related debt	248,967	301,993
Unrestricted	<u>67,531</u>	<u>19,988</u>
Total Net Assets	<u>\$ 316,498</u>	<u>\$ 321,981</u>

The following table presents the changes in net assets for the year ended September 30, 2006 and 2005:

Statement of Activities

	<u>2006</u>	<u>2005</u>
Revenues		
Fire Contracts	\$ 516,000	\$ 505,671
Interest	<u>11,504</u>	<u>4,418</u>
Total Revenues	<u>527,504</u>	<u>510,089</u>
Expenses		
Operations	348,510	310,417
Depreciation	148,721	112,503
Debt Service	<u>35,756</u>	<u>10,805</u>
Total Expenses	<u>532,987</u>	<u>433,725</u>
Increase (Decrease) in net assets	(5,483)	76,364
Net assets at beginning of year	<u>321,981</u>	<u>245,617</u>
Net assets at end of year	<u>\$ 316,498</u>	<u>\$ 321,981</u>

Financial Analysis of Fund (Modified Accrual) Statements

As noted earlier, the focus of the fund (modified accrual) financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority reported an ending fund balance of \$67,531, an increase of \$47,543 from the prior year.

BUDGETARY HIGHLIGHTS

The Authority annually prepares formal budgets with amendments made when necessary. There were no budget amendments for the year. The only significant difference between the original budget and the actual result was note proceed for \$129,981 and debt retirement to refinance two notes which were not budgeted.

CAPITAL ASSETS

The Authority had \$1,117,845 in capital assets, net of accumulated depreciation, at September 30, 2006, which was an increase of \$129,967. During the year, the Authority made the final payment on a pumper truck.

The following table summarizes the capital assets at September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Building Improvements	\$ 40,845	\$ 40,845
Vehicles	1,436,174	1,306,207
Other Equipment	<u>24,924</u>	<u>24,924</u>
	1,501,943	1,371,976
Accumulated Depreciation	(<u>384,098</u>)	(<u>235,377</u>)
	<u>\$1,117,845</u>	<u>\$1,136,599</u>

LONG-TERM DEBT

As of September 30, 2006, the Authority had \$849,981 in long-term debt compared to \$827,690 at September 30, 2005. During the year, the Authority refinanced one of its fire truck notes and a capital lease by issuing a new note for \$720,000 and paying \$107,690 from available resources. Also, the Authority entered into an installment purchase for a new pumper truck.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For fiscal 2007, the Authority has adopted a balanced budget with anticipated revenues and expenditures of \$527,187. This is an increase of \$11,187 or 2.2% from fiscal 2006.

CONTACTING THE AUTHORITY MANAGEMENT

This financial report is designed to provide a general overview of the St. Clair Area Fire Authority's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the St. Clair County Area Fire Authority, 214, St. Clair, MI 48079.

ST. CLAIR AREA FIRE AUTHORITY

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS SEPTEMBER 30, 2006

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 435,223	\$ -	\$ 435,223
Prepaid expenses	5,248	-	5,248
Capital assets, net of accumulated depreciation			
Assets being depreciated	-	1,117,845	1,117,845
Total Assets	440,471	1,117,845	1,558,316
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accrued fire runs	\$ 83,993	\$ -	\$ 83,993
Accounts payable	6,374	-	6,374
Accrued payroll taxes	8,429	-	8,429
Deferred revenues	274,144	-	274,144
Accrued interest	-	18,897	18,897
Notes payable			
Due within one year	-	83,297	83,297
Due in more than one year	-	766,684	766,684
Total Liabilities	372,940	868,878	1,241,818
Fund Balance:			
Reserved - Prepaids	5,248	(5,248)	-
Unreserved/Undesignated	62,283	(62,283)	-
Total Fund Balance	67,531	(67,531)	-
Total Liabilities and Fund Balance	\$ 440,471		
Net Assets			
Invested in capital assets, net of related debt		248,967	248,967
Unrestricted		67,531	67,531
Total Net Assets		\$ 316,498	\$ 316,498

See Notes to
Financial Statements

ST. CLAIR AREA FIRE AUTHORITY

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
Revenues:			
Fire Contracts			
Charter Township of East China	\$ 77,091	\$ -	\$ 77,091
Charter Township of China	53,354	-	53,354
St. Clair Township	134,882	-	134,882
City of St. Clair	250,673	-	250,673
Interest	11,504	-	11,504
	<u>527,504</u>	<u>-</u>	<u>527,504</u>
Expenditures/Expenses:			
Operations	348,510	-	348,510
Depreciation	-	148,721	148,721
Capital Outlay	129,967	(129,967)	-
Debt Service	131,465	(95,709)	35,756
	<u>609,942</u>	<u>(76,955)</u>	<u>532,987</u>
 Excess of revenues over (under) expenditures/expenses	 (82,438)	 76,955	 (5,483)
Other Financing Sources:			
Note Proceeds	<u>129,981</u>	<u>(129,981)</u>	<u>-</u>
 Excess of revenues and other sources over (under) expenditures/expenses	 47,543	 (53,026)	 (5,483)
 Fund Balance/Net Assets at October 1, 2005	 <u>19,988</u>	 <u>301,993</u>	 <u>321,981</u>
 Fund Balance/Net Assets at September 30, 2006	 <u>\$ 67,531</u>	 <u>\$ 248,967</u>	 <u>\$ 316,498</u>

See Notes to
Financial Statements

ST. CLAIR AREA FIRE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Original/ Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Fire Contracts	\$ 516,000	\$ 516,000	\$ -
Interest	-	11,504	11,504
	<u>516,000</u>	<u>527,504</u>	<u>11,504</u>
Expenditures:			
Operations	386,033	348,510	37,523
Capital Outlay	129,967	129,967	-
Debt Service	-	131,465	(131,465)
	<u>516,000</u>	<u>609,942</u>	<u>(93,942)</u>
Excess of revenues over (under) expenditures	-	(82,438)	(82,438)
Other Financing Sources:			
Note Proceeds	-	129,981	129,981
Excess of revenues and other sources over (under) expenditures		47,543	47,543
Fund Balance at October 1, 2005	<u>19,988</u>	<u>19,988</u>	<u>-</u>
Fund Balance at September 30, 2006.	<u>\$ 19,988</u>	<u>\$ 67,531</u>	<u>\$ 47,543</u>

See Notes to
Financial Statements

ST. CLAIR AREA FIRE AUTHORITY
St. Clair, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Authority included in the basic financial statements conform to U.S. generally accepted accounting principles applicable to state and local governments.

A. Reporting Entity -

The St. Clair Area Fire Authority was created as legal and administrative agency pursuant to the Urban Cooperation Act, PA 1967, Ex. Sess., No. 7. It is a quasi governmental agency organized to provide fire fighting services to the participating municipalities, currently the City of St. Clair, the Charter Townships of East China and China and St. Clair Townships. The Authority is operated by an eight (8) member board, two (2) from each of the participating municipalities.

B. Government-wide and Fund Financial Statements -

The governmental-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information of all of its activities of its authority. The St. Clair Area Fire Authority is accounted for in one governmental type fund.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation -

The government-wide financial statements (i.e. the Statement of Net Assets and Statement of Activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The fund (modified accrual) statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

D. Assets, Liabilities and Net Assets or Equity -

Cash Equivalents – Cash equivalents are deposits and short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase.

ST. CLAIR AREA FIRE AUTHORITY
St. Clair, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Capital Assets - Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following:

	<u>Years</u>
Building Improvements	20-27.5
Fire Trucks	10
Other Equipment	3-10

The Authority utilizes a number of assets that were purchased by the applicable entities prior to organizing as an Authority. These assets are not recorded in the Authority financial statements, but rather in the municipalities that purchased the assets.

Deferred Revenues - In both the government-wide and in the fund (modified accrual) financial statements, revenue received or recorded before it is earned is recorded as a deferred revenue. In addition, in the fund statements, revenues that are not both measurable and available are recorded as deferred revenues.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement.

In the fund financial statements, these items are recorded as an expenditure when paid.

Estimates - In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ST. CLAIR AREA FIRE AUTHORITY
St. Clair, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the fund (modified accrual) balance sheet and the government-wide statements of net assets (Page 5).

Fund Balance	\$ 67,531
Capital assets used in the modified accrued activities which are not financial resources and therefore are not reported in the fund statements	
Add – capital assets	1,501,943
Deduct – accumulated depreciation	(384,098)
Long-term notes payments that are not due in current period, therefore, not reported in the fund (modified accrual) activities.	(849,981)
Accrual of Interest on notes payable	(18,897)
Net Assets	<u>\$ 316,498</u>

- B.** Explanation of differences between the fund (modified accrual) statement of revenues, expenditures and changes in fund balance and the government-wide statement of net activities (Page 6).

Net changes in fund balance – modified accrual	\$ 47,543
The fund (modified accrual) statements report capital outlay as expenditures. However, in the Statement of Net Assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses	
Add – capital outlay	129,967
Deduct – depreciation	(148,721)
The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.	
Principal payment on long-term liabilities	107,690
Note Proceed	(129,981)
Accrued interest on long-term notes reported in the statement of activities do not require the use of current financial resources, and therefore, not reported in the fund (modified accrual) statement	(11,981)
Change in Net Assets	<u>\$ (5,483)</u>

ST. CLAIR AREA FIRE AUTHORITY
St. Clair, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

The Uniform Budgetary and Accounting Act, PA 2 of 1968, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Authority's budget was approved at the account level.

During the year, the Authority incurred expenditures, which were in excess of the amounts appropriated, as follows:

	<u>Budget</u>	<u>Expenditures</u>	<u>Variance</u>
Regular Wages	\$ 179,947	\$ 182,691	\$ (2,744)
Fringes	32,981	38,165	(5,184)
Contracted services	8,900	11,204	(2,304)
Telephone	2,300	4,244	(1,944)
Gas and oil	1,255	7,282	(6,027)
Liability and property damage	25,600	31,164	(5,564)
Repair and maintenance	14,800	17,277	(2,477)
Membership and dues	1,110	1,193	(83)
Miscellaneous expenses	200	1,002	(802)

NOTE 4 – DEPOSITS AND INVESTMENTS:

Deposits –

Act 217 PA 1982, as amended, authorizes the Authority to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, by section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of September 30, 2006, the Authority maintained one checking account with a carrying value of \$264,257, and a bank balance of \$273,106 and one savings CD account with a carrying value and bank balance of \$170,966. Of the bank balances, \$100,000 was FDIC insured with the balance of \$344,072 uninsured and uncollateralized.

ST. CLAIR AREA FIRE AUTHORITY
St. Clair, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 5 – CAPITAL ASSETS:

Capital assets for the year ended September 30, 2006 was as follows:

	Balance at October 1, 2005	Additions	Deductions	Balance at September 30, 2006
Capital Assets, being depreciated				
Building Improvements	\$ 40,845	\$ -	\$ -	\$ 40,845
Vehicles	1,306,207	129,967	-	1,436,174
Other Equipment	<u>24,924</u>	<u>-</u>	<u>-</u>	<u>24,924</u>
	<u>1,371,976</u>	<u>129,967</u>	<u>-</u>	<u>1,501,943</u>
Less accumulated depreciation for:				
Building Improvements	1,730	1,282	-	3,012
Vehicles	226,513	143,617	-	370,130
Other Equipment	<u>7,134</u>	<u>3,822</u>	<u>-</u>	<u>10,956</u>
	<u>235,377</u>	<u>148,721</u>	<u>-</u>	<u>384,098</u>
Capital Assets, net	<u>\$ 1,136,599</u>	<u>\$ (18,754)</u>	<u>\$ -</u>	<u>\$ 1,117,845</u>

As indicated in Note 1, the Authority utilizes building and equipment purchased by the member municipalities prior to the forming of the Authority. These assets are not recorded in the Authority's financial statements but rather by the municipalities that purchased the assets.

ST. CLAIR AREA FIRE AUTHORITY
St. Clair, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 6 – LONG-TERM DEBT:

The following summary of the changes in the long-term debt (including current portion) of the Authority for the year ended September 30, 2006:

	<u>Balance at</u> <u>Oct. 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>Sept. 30, 2006</u>	<u>Due Within</u> <u>One Year</u>
Note Payable					
Refinancing-					
Due in annual					
installments of					
\$89,958 through					
April 1, 2016					
including interest					
of 4.25%	\$ -	\$ 720,000	\$ -	\$ 720,000	\$ 59,096
Notes Payable					
Pumper Truck					
Due in annual					
installments of					
\$29,400 through					
February 8, 2011					
including interest					
of 4.00%	-	129,981	-	129,981	24,201
Notes Payable (1)					
Fire Truck –					
Due in annual					
installments of					
\$58,524 through					
July 1, 2013					
including interest					
of 6%	399,429	-	399,429	-	-
Capital Lease (1)					
Fire Truck –					
Due in annual					
installments of					
\$93,704, including					
interest of 3.07%	428,261	-	428,261	-	-
	<u>\$ 827,690</u>	<u>\$ 849,981</u>	<u>\$ 827,690</u>	<u>\$ 849,981</u>	<u>\$ 83,297</u>

(1) During the year the Authority refinanced one of its fire truck notes payable and a capital lease on a fire truck by issuing a new note for \$720,000 and paying \$107,690 from available resources.

ST. CLAIR AREA FIRE AUTHORITY
St. Clair, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 6 – LONG-TERM DEBT – (cont'd):

The annual requirements to amortize long-term debt outstanding at September 30, 2006, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 83,297	\$ 36,061	\$ 119,358
2008	87,039	32,319	119,358
2009	90,675	28,683	119,358
2010	94,462	24,896	119,358
2011	97,311	20,950	118,261
2012	73,077	16,881	89,958
2013	76,183	13,775	89,958
2014	79,420	10,538	89,958
2015	82,796	7,162	89,958
2016	<u>85,721</u>	<u>3,643</u>	<u>89,364</u>
	<u>\$ 849,981</u>	<u>\$ 194,908</u>	<u>\$ 1,044,889</u>

NOTE 7 – EMPLOYEE PENSION PLAN:

Plan Description –

The Authority participates in the Municipal Employees Retirement System (MERS), a multiple employer statewide, public employee defined benefit pension plan created under Public Act of 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy –

The plan adopted by the Authority Council requires no member contributions. The Authority is required to contribute at an actuarially determined rate; the rate for fiscal 2006 was 15.29 of payroll. The contribution requirements of plan members and the Authority are established and may be amended by the Authority, depending on the MERS contribution program adopted by the Authority.

ST. CLAIR AREA FIRE AUTHORITY
St. Clair, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 7 – EMPLOYEE PENSION PLAN – (cont'd):

Annual Pension Costs –

For fiscal 2006, the Authority's annual pension cost of \$6,549 for MERS was equal to the Authority's required and actual contributions.

The required contribution was determined as part of the actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 4.5% to 8.66% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% annually for employees under benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the fund earns the expected rate of return (8%) and includes as adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Trend Information (1)

Fiscal Year Ending Dec. 31.	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2004	\$ 8,200	100 %	
2005	3,427	100	-
2006	6,549	100	-

Schedule of Funding Progress (1)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Over funded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2003	\$ 37,381	\$ 57,097	\$ 19,716	65 %	\$ 44,771	44 %
2004	43,717	-	(43,717)	-	29,277	-
2005	53,115	4,829	(48,286)	-	38,518	-

NOTE 8 – FUNDING:

The Authority is financed each year by the participating municipalities. This funding represents approximately 98% of total revenues for the year ending September 30, 2006. Consequently, the Authority's ability to provide services is dependent upon the continuing support of those municipalities.

NOTE 9 – RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Authority has purchased issuance coverage for each of these types of losses, however, would be responsible should the limits of coverage be exceeded.

SUPPLEMENTARY FINANCIAL INFORMATION

ST. CLAIR AREA FIRE AUTHORITY

DETAILED SCHEDULE OF OPERATING EXPENDITURES FOR THE YEARS ENDED SEPTEMBER 30, 2006 and 2005

	2006			2005
	Original/ Amended Budget	Actual	Variance Favorable (Unfavorable)	Actual
Regular Wages	\$ 179,947	\$ 182,691	\$(2,744)	\$ 171,140
Fringes	32,981	38,165	(5,184)	35,737
General maintenance	6,525	6,525	-	6,335
Operating supplies	13,760	11,436	2,324	11,803
Uniforms	2,448	966	1,482	573
Uniform Maintenance	900	900	-	900
Professional fees	-	-	-	-
Hiring / Medical Costs	1,000	371	629	1,747
Contracted services	8,900	11,204	(2,304)	7,800
Contracted equipment maintenance	4,080	3,660	420	3,840
Telephone	2,300	4,244	(1,944)	1,664
Gas and oil	1,255	7,282	(6,027)	130
Liability and property damage	25,600	31,164	(5,564)	24,355
Public utilities	15,000	11,868	3,132	11,753
Repair and maintenance	14,800	17,277	(2,477)	15,994
Education and training	22,490	12,231	10,259	11,516
Membership and dues	1,110	1,193	(83)	352
Miscellaneous expense	200	1,002	(802)	-
Noncapitalized equipment	52,737	6,331	46,406	4,778
	<u>\$ 386,033</u>	<u>\$ 348,510</u>	<u>\$ 37,523</u>	<u>\$ 310,417</u>



February 13, 2007

Members of the St. Clair Area Fire Authority Board
St. Clair, Michigan

We have audited the financial statements of the St. Clair Area Fire Authority for the year ended September 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of the St. Clair Area Fire Authority in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the St. Clair Area Fire Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the St. Clair Area Fire Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5)

Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Fire Authority's financial statements and this communication of these matters does not affect our report on the financial statements, dated February 13, 2007.

Summary

We welcome any questions you may have regarding the foregoing.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants